

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Township of Handy	County Livingston
Fiscal Year End June 30, 2006	Opinion Date November 22, 2006	Date Audit Report Submitted to State	

We affirm that:

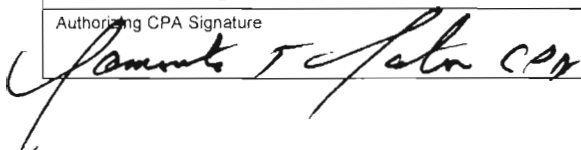
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
  - ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
  - ☐ ☒ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
  - ☒ ☐ The local unit has adopted a budget for all required funds.
  - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
  - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
  - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
  - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
  - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
  - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
  - ☒ ☐ The local unit is free of repeated comments from previous years.
  - ☒ ☐ The audit opinion is UNQUALIFIED.
  - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
  - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
  - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Maner, Costerisan, & Ellis, P.C.		Telephone Number 517-323-7500		
Street Address 544 Cherbourg, Suite 200		City Lansing	State MI	Zip 48917
Authorizing CPA Signature 		Printed Name LAWRENCE LATOR		License Number 1101008801

**TOWNSHIP OF HANDY**  
**REPORT ON FINANCIAL STATEMENTS**  
**(with required supplementary information)**  
**YEAR ENDED JUNE 30, 2006**

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Timothy J. Orians  
Dennis D. Theis

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Walter P. Maner, Jr. (1921-2004)  
Floyd L. Costerisan  
Leon A. Ellis (1933-1988)

## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees  
Township of Handy  
Fowlerville, Michigan

November 22, 2006

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Handy, State of Michigan as of and for the year ended June 30, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township of Handy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Handy, State of Michigan, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Trustees  
Township of Handy  
Fowlerville, Michigan

November 22, 2006

The management's discussion and analysis and budgetary comparison information on pages v through xvii and 27 and 28 are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Maner, Costerian & Ellis, P.C.*

Certified Public Accountants

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Township of Handy (Township), we offer readers of the Township of Handy's financial statements this narrative overview and analysis of the financial activities of the Township of Handy for the fiscal year ended June 30, 2006.

### FINANCIAL HIGHLIGHTS

- The assets of the Township exceeded its liabilities at the close of the most recent fiscal year by \$11.9 million dollars (net assets). Of this amount, \$10.2 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$5.5 million dollars.
- As of the close of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$850 thousand, a increase of \$211 thousand in comparison with the prior year. Approximately \$573 thousand is available for spending.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$573 thousand, or 70 percent of total general fund expenditures.
- The Township's total long-term liabilities increased \$4.8 million. The key factor in this increase was the sewer extension project.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Township's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., delinquent personal property taxes and earned but unused compensated absences).

Both of the government-wide financial statements distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Township include general government, public works, other activities, and culture and recreation. The business-type activities of the Township include water and sewer activity.

The government-wide financial statements can be found on pages 2 and 3 of this report.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Township maintains two individual governmental funds. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, of which is considered to be a major fund. Data from the other governmental fund is combined into a single, aggregated presentation.

The Township adopts an annual appropriated budget for its general fund. Budgetary comparison statements have been provided for the general fund in the required supplementary information..

The basic governmental fund financial statements can be found on pages 4 through 6 of this report.

***Proprietary funds.*** The Township maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Township uses enterprise funds to account for its water and sewer activity. The Township does not utilize an internal service fund.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer funds, both of which are considered to be major funds of the Township.

The basic proprietary fund financial statements can be found on pages 7 through 10 of this report.

***Fiduciary funds.*** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the Township's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 11 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 12 through 25 of this report.

### **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of government's financial position. In the case of the Township, assets exceeded liabilities by \$11.9 million at the close of the most recent fiscal year.



Investment in capital assets represents 12 percent of the Township's net assets (e.g., land, building, infrastructure, and equipment), less any related debt used to acquire those assets that is still outstanding. The Township uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Township's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Township of Handy's Net Assets

	Governmental activities		Business-type activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 1,084,323	\$ 732,879	\$ 9,914,487	\$ 4,396,187	\$ 10,998,810	\$ 5,129,066
Capital assets	595,997	615,863	10,303,860	5,349,417	10,899,857	5,965,280
Total assets	1,680,320	1,348,742	20,218,347	9,745,604	21,898,667	11,094,346
Long-term liabilities outstanding	330,000	350,000	8,485,000	3,935,000	8,815,000	4,285,000
Other liabilities	208,670	118,455	952,298	302,124	1,160,968	420,579
Total liabilities	538,670	468,455	9,437,298	4,237,124	9,975,968	4,705,579
Net assets:						
Invested in capital assets, net of related debt	245,997	245,863	1,397,890	1,169,417	1,643,887	1,415,280
Restricted	9,109	3,440			9,109	3,440
Unrestricted	886,544	630,984	9,383,159	4,339,063	10,269,703	4,970,047
Total net assets	\$ 1,141,650	\$ 880,287	\$ 10,781,049	\$ 5,508,480	\$ 11,922,699	\$ 6,388,767

An additional portion of the Township's net assets (0.08 percent) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets (\$10.2 million) may be used to meet the government's ongoing obligations to citizens and creditors, however, \$8.15 million is for special assessments and will be received over 20 years.

At the end of the current fiscal year, the Township is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The restricted governmental fund net assets increased by \$5,669 which arose from increases in the debt service fund amounts restricted by source of revenue such as debt payment.

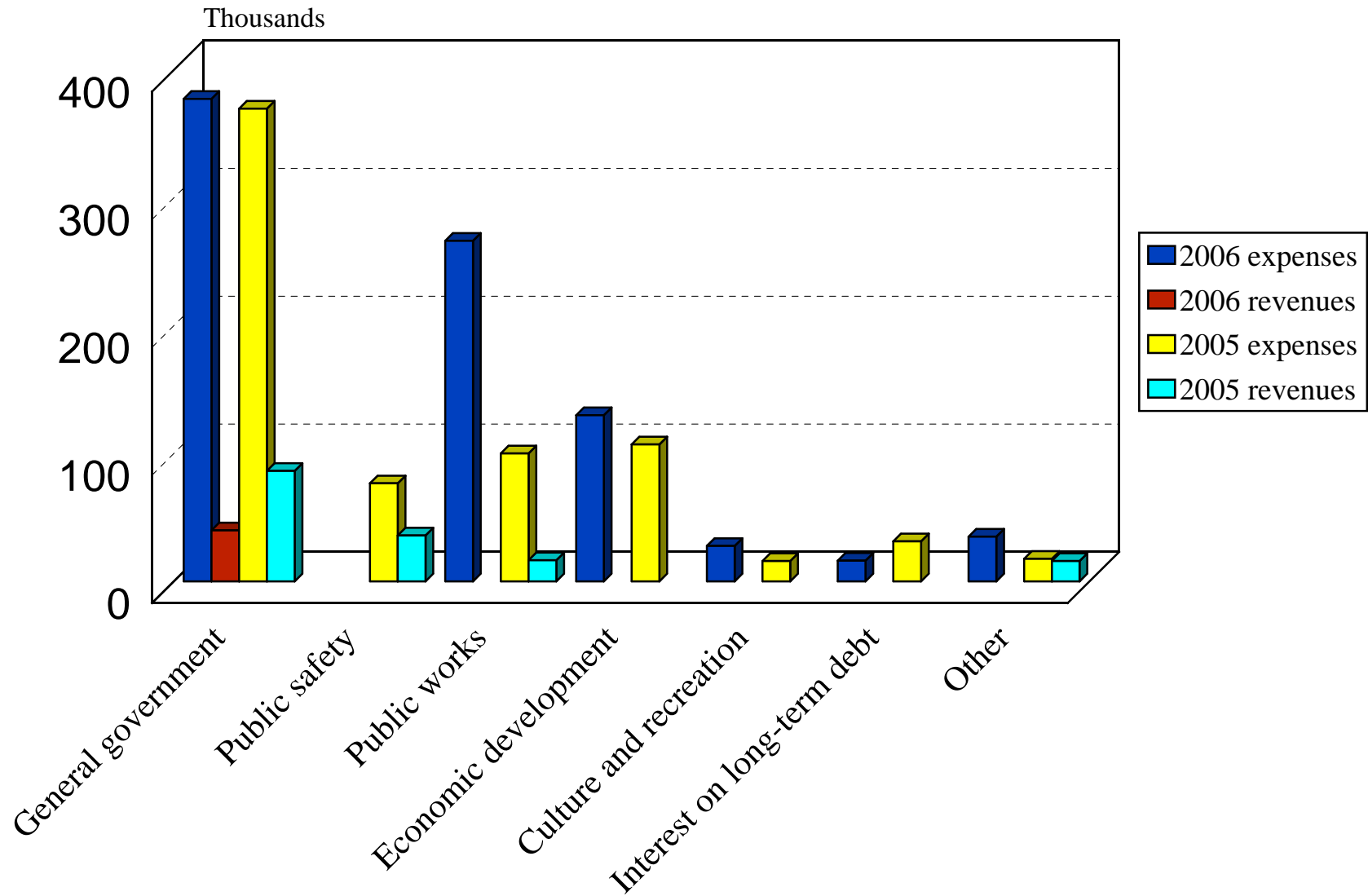
The government's net assets increased by \$5.5 million during the current fiscal year. About 98 percent of this increase represents the levy of a special assessment made in the enterprise fund. The remaining 2 percent is attributed to ongoing revenues have outstripped similar increases in ongoing expenditures.

**Governmental activities.** Governmental activities increased the Township's net assets by \$261,363, thereby accounting for 4 percent of the total growth, while the business-type activities net assets increased by \$5,272,569, which represents 96 percent of the growth in the net assets of the Township. Key elements of this increase are as follows:

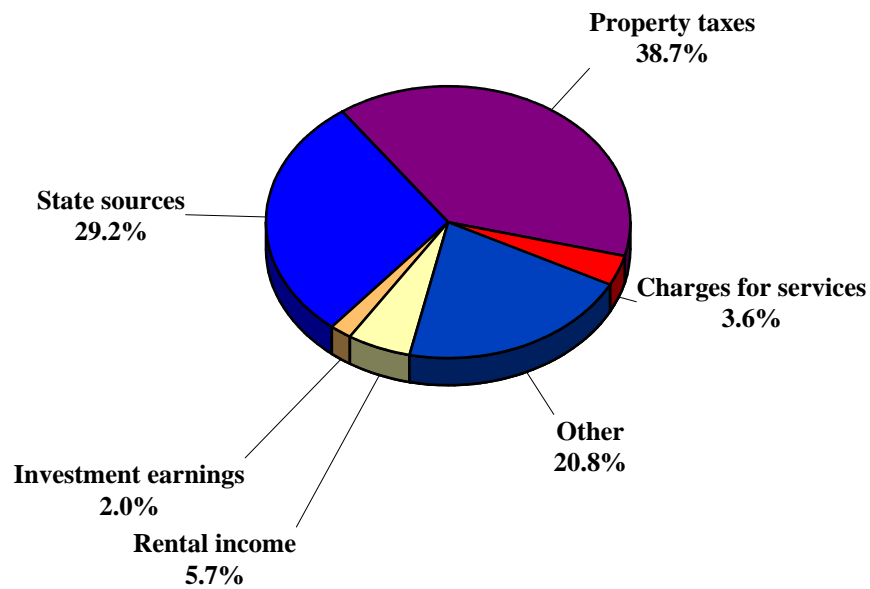
Township of Handy's Changes in Net Assets

	Governmental activities		Business-type activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	\$ 39,883	\$ 109,100	\$ 86,939	\$ 9,949	\$ 126,822	\$ 119,049
Operating grants and contributions		32,244		50,000		82,244
Capital grants and contributions			5,662,000	1,115,751	5,662,000	1,115,751
General revenues:						
Property taxes	431,700	332,012			431,700	332,012
State sources	325,044	266,625			325,044	266,625
Investment earnings	22,376	13,728	40,409	14,846	62,785	28,574
Rental income	63,442				63,442	
Other	231,718	62,909		58,678	231,718	121,587
Total revenues	1,114,163	816,618	5,789,348	1,249,224	6,903,511	2,065,842
Expenses:						
General government	377,430	369,822			377,430	369,822
Public safety		76,650				76,650
Public works	266,422	100,065			266,422	100,065
Community and economic development	130,017	107,134			130,017	107,134
Culture and recreation	27,676	15,863			27,676	15,863
Other	35,013	31,277			35,013	31,277
Interest on long-term debt	16,242	17,651			16,242	17,651
Water			62,800	26,358	62,800	26,358
Sewer			453,979	290,892	453,979	290,892
Total expenses	852,800	718,462	516,779	317,250	1,369,579	1,035,712
Increase (decrease) in net assets	261,363	98,156	5,272,569	931,974	5,533,932	1,030,130
Net assets, beginning of year	880,287	782,131	5,508,480	4,576,506	6,388,767	5,358,637
Net assets, end of year	\$ 1,141,650	\$ 880,287	\$ 10,781,049	\$ 5,508,480	\$ 11,922,699	\$ 6,388,767

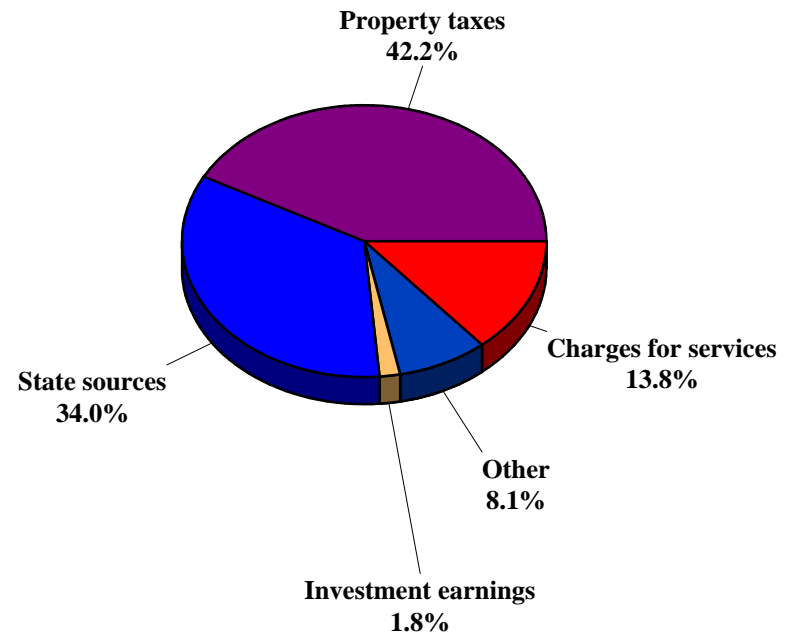
**Township of Handy**  
**Expenses and Program Revenues - Governmental Activities**  
**June 30**



**Township of Handy  
Revenues by Source - Governmental Activities  
June 30**

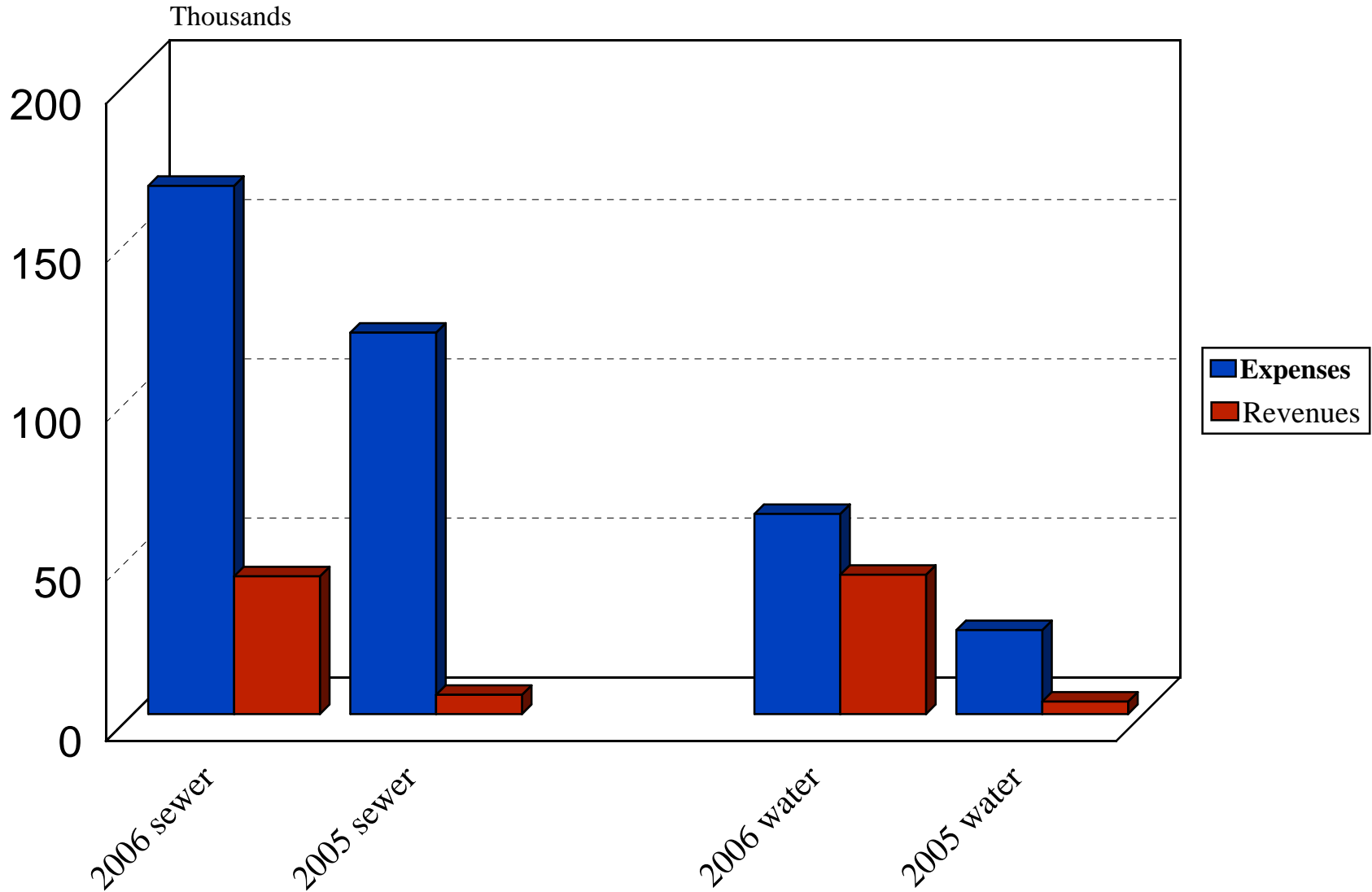


**2006**



**2005**

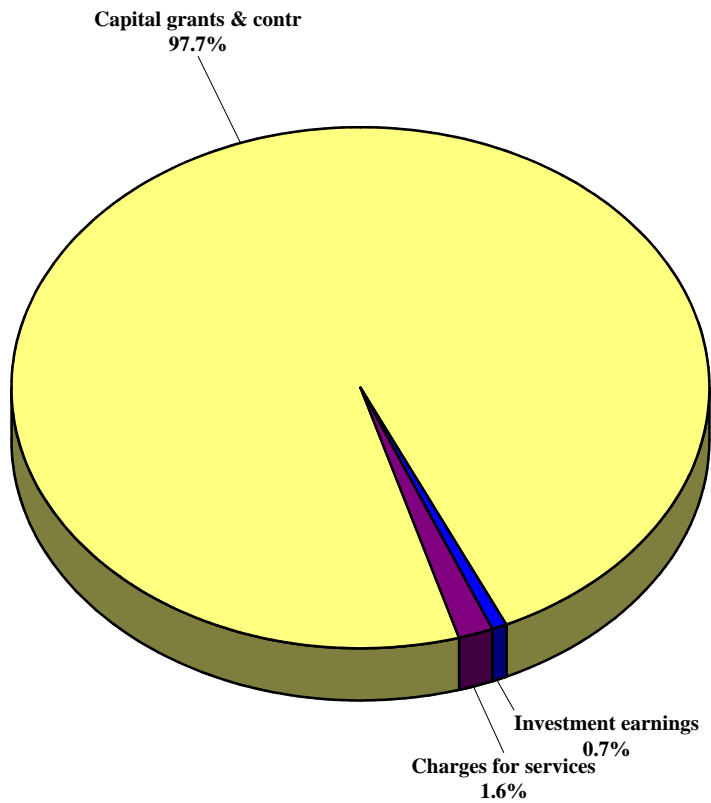
**Township of Handy**  
**Expenses and Program Revenues - Business-type Activities**  
**June 30**



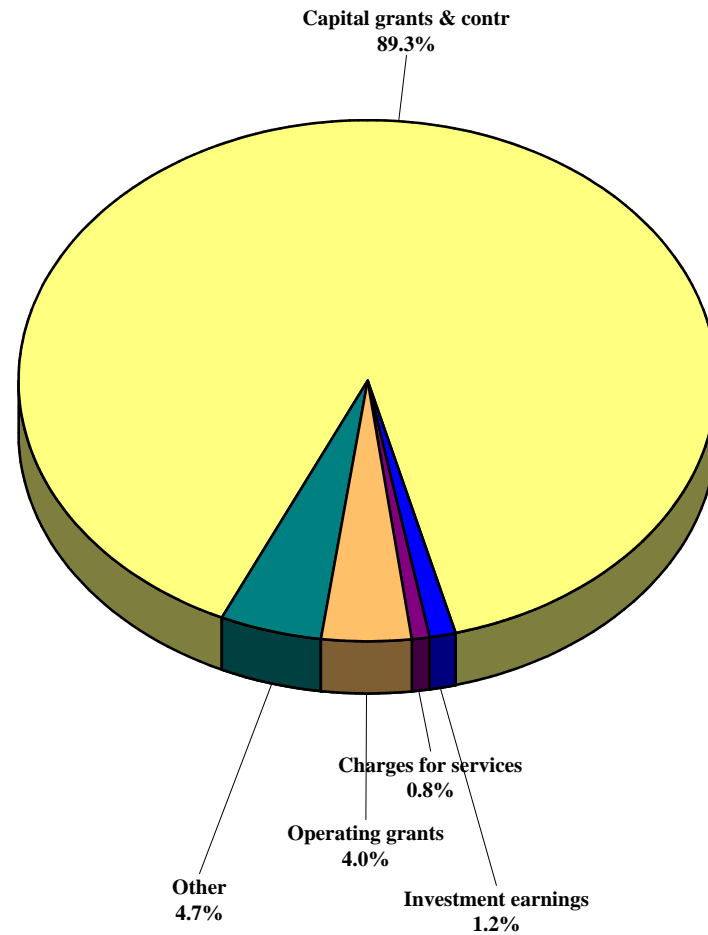
# Township of Handy

## Revenues by Source - Business-type Activities

### June 30



2006



2005

- Property taxes increased by \$99,688 (30 percent) during the year. Most of this increase is the product of new construction and the collection of delinquent taxes.
- Overall government activities revenue is up \$4.9 million from prior year. The Township issued a special assessment to finance the construction of a sewer extension and received an increase in reimbursements for expenses that the Township incurred on behalf of others, increase in investment earnings, as well as property taxes all contributed to the increase in the revenue.
- Expenses for governmental activities went from \$718 thousand to \$852 thousand, a increase of \$134 thousand. A majority of the increase is due to the additional funding allocated for road repair and maintenance.

For the most part, increases in expenses closely paralleled inflation and growth in the demand for services.

**Business-type activities.** Business-type activities increased the Township's net assets by \$5,272,569. Key elements of this increase are as follows.

- **Capital grants and contributions** - Contributions in 2006 were \$5,662,000, all in the sewer fund.
- **Investment earnings** - Investment earnings increased by \$25,563.

The contributions received, along with the increase in investment earnings was used to offset a combined operating loss of the water and sewer fund of \$141,644.

#### Financial Analysis of the Government's Funds

As noted earlier, the Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the Township's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Township's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Township's governmental funds reported combined ending fund balance of \$850 thousand, an increase of \$211 thousand in comparison with the prior year. Approximately all of the total amount constitutes *unreserved fund balance*, which is available for spending at the government's discretion although special revenue and capital projects funds generally are limited to types of expenditures. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) to pay debt service (\$13,045), or 2) for a variety of other designated purposes (\$263,491).

The general fund is the chief operating fund of the Township. At the end of the current fiscal year, unreserved fund balance of the general fund was \$573 thousand, while total fund balance reached \$837 thousand. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 70 percent of total general fund expenditures, while total fund balance represents 102 percent of that same amount.

The fund balance of the Township's general fund increased by \$202 thousand during the current fiscal year. The key factor in this increase are as follows:

- The Township received reimbursements of expenses it incurred on behalf of others in the amount of approximately \$200,000.
- Township departments were very conservative when making purchases.

The debt service fund has a total fund balance of \$13,045, all of which is reserved for the payment of debt service. The net increase in fund balance during the current year in the debt service fund was \$9,605. Operating transfers increased due to funding the payments of the principal amount required for the debt maturity schedule.

***Proprietary funds.*** The Township's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets for the water and sewer funds at the end of the year amounted to \$9.4 million. The total increase in net assets amounted to \$5,272,569. Other factors concerning the finances of this fund have already been addressed in the discussion of the Township's business-type activities.

#### General Fund Budgetary Highlights

The final amended budget remained consistent with the original budget, however individual categorical changes can be summarized as follows:

- \$12,329 increase in general government activities
- \$21,160 increase in community and economic development
- \$33,490 decrease in other activities

The main reason for the changes resulted from reallocating expenses across the different governmental activities. During the year actual revenue received exceeded the budgetary estimates. This arises primarily from timing reimbursements received by the Township for expenses it incurred on behalf of others.



## Capital Asset and Debt Administration

**Capital assets.** The Township's investment in capital assets for its governmental and business type activities as of June 30, 2006, amounts to \$10.8 million (net of accumulated depreciation). This investment in capital assets includes land, buildings and building equipment, furniture and equipment, water and sewer systems, and construction in process. The total increase in the Township's investment in capital assets for the current fiscal year was 83 percent (a 3 percent decrease for governmental activities and a 93 percent increase for business-type activities).

Major capital asset events during the current fiscal year included the following:

- Construction of water and sewer projects in the amount of \$5.1 million.

### Township of Handy's Capital Assets (net of depreciation)

	Governmental activities		Business-type activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$ 20,000	\$ 20,000	\$	\$	\$ 20,000	\$ 20,000
Building and building equipment	535,394	555,018			535,394	555,018
Furniture and equipment	40,603	40,845			40,603	40,845
Sewer and water mains			5,357,223	5,349,417	5,357,223	5,349,417
Construction in process			4,946,137		4,946,137	
	<u>\$ 595,997</u>	<u>\$ 615,863</u>	<u>\$ 10,303,360</u>	<u>\$ 5,349,417</u>	<u>\$ 10,899,357</u>	<u>\$ 5,965,280</u>

Additional information on the Township's capital assets can be found in Note 4 on pages 19 and 20 of this report.

**Long-term debt.** At the end of the current fiscal year, the Township had total long-term debt outstanding of \$9.3 million. Of this amount, \$9.35 million comprises debt backed by the full faith and credit of the government. The amount of \$9.0 million of the Township's debt represents bonds secured solely by specified special assessments. The remaining \$350 thousand represents other long-term items.

**Township of Handy's Outstanding Debt**  
**General Obligation Bonds and Capital Leases**

	Governmental activities		Business-type activities		Total	
	2006	2005	2006	2005	2006	2005
General obligation	\$ 350,000	\$ 370,000	\$	\$	\$ 350,000	\$ 370,000
Capital leases			8,995,000	4,180,000	8,995,000	4,180,000
Total	<u>\$ 350,000</u>	<u>\$ 370,000</u>	<u>\$ 8,995,000</u>	<u>\$ 4,180,000</u>	<u>\$ 9,345,000</u>	<u>\$ 4,550,000</u>

The Township's total debt increased by \$4.8 million (105 percent) during the current fiscal year. The key factor in this increase was the sewer extension project.

Additional information on the Township's long-term debt can be found in Note 6 on pages 22 through 24 of this report.

**Economic Factors and Next Year's Budgets and Rates**

These factors were taken into consideration when preparing the fiscal year 2007 budget.

Township of Handy's goal is to continually look for the most efficient and effective methods to maintain and enhance the services that are provided to the public. The Township is described as "a growing economic base with a sound financial position and minimal capital needs". The Township has a conservative and financially prudent budget for the fiscal year 2007 that also promotes and funds numerous project objectives that have been set by the Township's Strategic Plan.

The Township has deliberately made conservative estimates concerning state revenue sharing for fiscal year 2007 due to the budget constraints at the State level. It has also estimated investment earnings conservatively anticipating a slow increase in interest rates.

**Requests for Information**

This financial report is designed to provide a general overview of the Township's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should contact the Township of Handy's Office at (517) 223-3228.

## **BASIC FINANCIAL STATEMENTS**

**TOWNSHIP OF HANDY  
STATEMENT OF NET ASSETS  
JUNE 30, 2006**

	Primary Government		
	Governmental activities	Business-type activities	Total
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash	\$ 101,555	\$ 319,314	\$ 420,869
Cash held in trust at Livingston County		1,021,852	1,021,852
Investments	450,000		450,000
Receivables:			
Accounts	155,217	40,203	195,420
Interest	15,684		15,684
Special assessment - interest		262,341	262,341
Special assessment - current		483,535	483,535
Internal balances	361,867	(361,867)	
<b>TOTAL CURRENT ASSETS</b>	<u>1,084,323</u>	<u>1,765,378</u>	<u>2,849,701</u>
<b>NONCURRENT ASSETS:</b>			
Deferred charges:			
Unamortized bond discounts		89,030	89,030
Special assessments - deferred		8,060,079	8,060,079
<b>TOTAL NONCURRENT ASSETS</b>		<u>8,149,109</u>	<u>8,149,109</u>
<b>CAPITAL ASSETS:</b>			
Land and construction in progress	20,000	4,946,137	4,966,137
Other capital assets, net of accumulated depreciation	575,997	5,357,723	5,933,720
<b>TOTAL CAPITAL ASSETS</b>	<u>595,997</u>	<u>10,303,860</u>	<u>10,899,857</u>
<b>TOTAL ASSETS</b>	<u>1,680,320</u>	<u>20,218,347</u>	<u>21,898,667</u>
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES:</b>			
Accounts payable	169,057	212,487	381,544
Accrued salaries and related items	15,677		15,677
Accrued interest	3,936	30,458	34,394
Contract retainers payable		199,353	199,353
Current portion of long term obligations	20,000		20,000
Current portion of capital lease		510,000	510,000
<b>TOTAL CURRENT LIABILITIES</b>	<u>208,670</u>	<u>952,298</u>	<u>1,160,968</u>
<b>NONCURRENT LIABILITIES:</b>			
Noncurrent portion of long term obligations:			
Other long-term debt	330,000		330,000
Capital lease		8,485,000	8,485,000
<b>TOTAL NONCURRENT LIABILITIES</b>	<u>330,000</u>	<u>8,485,000</u>	<u>8,815,000</u>
<b>TOTAL LIABILITIES</b>	<u>538,670</u>	<u>9,437,298</u>	<u>9,975,968</u>
<b>NET ASSETS:</b>			
Invested in capital assets net of related debt	245,997	1,397,890	1,643,887
Restricted for debt service	9,109		9,109
Unrestricted	886,544	9,383,159	10,269,703
<b>TOTAL NET ASSETS</b>	<u>\$ 1,141,650</u>	<u>\$ 10,781,049</u>	<u>\$ 11,922,699</u>

**TOWNSHIP OF HANDY  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2006**

					Net (expense) revenue and changes in net assets		
					Primary Government		
		Program revenues					
Functions/programs	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Total
Primary government:							
Governmental activities:							
General government	\$ 377,430	\$ 39,883	\$	\$	\$ (337,547)	\$	\$ (337,547)
Public works	266,422				(266,422)		(266,422)
Community and economic development	130,017				(130,017)		(130,017)
Culture and recreation	27,676				(27,676)		(27,676)
Other	35,013				(35,013)		(35,013)
Interest on long-term debt	16,242				(16,242)		(16,242)
Total governmental activities	852,800	39,883			(812,917)		(812,917)
Business-type activities:							
Water	62,800	43,716				(19,084)	(19,084)
Sewer	453,979	43,223		5,662,000		5,251,244	5,251,244
Total business activities	516,779	86,939		5,662,000		5,232,160	5,232,160
Total primary government	\$ 1,369,579	\$ 126,822	\$	\$ 5,662,000			4,419,243
General revenues:							
Taxes:							
Property taxes, levied for general purposes					431,700		431,700
State sources					325,044		325,044
Investment earnings					22,376	40,409	62,785
Rental income					63,442		63,442
Other					231,718		231,718
Total general revenues					1,074,280	40,409	1,114,689
Change in net assets					261,363	5,272,569	5,533,932
Net assets, beginning of year					880,287	5,508,480	6,388,767
Net assets, end of year					\$ 1,141,650	\$ 10,781,049	\$ 11,922,699

See notes to financial statements.

**TOWNSHIP OF HANDY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006**

		<b>General</b>	<b>Nonmajor governmental fund Debt service</b>	<b>Total governmental funds</b>
<b>ASSETS</b>				
<b>ASSETS:</b>				
Cash	\$	88,510	\$	13,045
Investments		450,000		450,000
Receivables				
Accounts		105,952		105,952
Interest		15,684		15,684
Due from other funds		361,867		361,867
<b>TOTAL ASSETS</b>		<u>\$ 1,022,013</u>	<u>\$ 13,045</u>	<u>\$ 1,035,058</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Accounts payable	\$	169,057	\$	169,057
Accrued salaries and related items		15,677		15,677
<b>TOTAL LIABILITIES</b>		<u>184,734</u>		<u>184,734</u>
<b>FUND BALANCES:</b>				
Reserved for debt service			13,045	13,045
Designated for subsequent years' expenditures		263,491		263,491
Unreserved, undesignated		573,788		573,788
<b>TOTAL FUND BALANCES</b>		<u>837,279</u>	<u>13,045</u>	<u>850,324</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>		<u>\$ 1,022,013</u>	<u>\$ 13,045</u>	<u>\$ 1,035,058</u>
<b>Total Governmental Fund Balances</b>				\$ 850,324
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:				
Cost of the capital assets			\$ 779,550	
Less accumulated depreciation			<u>183,553</u>	
				595,997
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:				
Other long-term debt				(350,000)
Accrued interest				(3,936)
Balance of state revenue sharing at 6/30/06 less allowance for doubtful accounts, expected to be collected after September 1, 2006				
				<u>49,265</u>
<b>Net assets of governmental activities</b>				<u>\$ 1,141,650</u>

See notes to financial statements.

**TOWNSHIP OF HANDY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2006**

	<b>General</b>	<b>Nonmajor governmental fund Debt service</b>	<b>Total governmental funds</b>
<b>REVENUES:</b>			
Local sources:			
Property taxes	\$ 431,700	\$	\$ 431,700
Licenses and permits	28,164		28,164
Charges for services	11,719		11,719
Investment earnings	22,125	251	22,376
Rental income and royalties	63,442		63,442
Other	231,718		231,718
Total local sources	788,868	251	789,119
State sources	275,779		275,779
Total revenues	1,064,647	251	1,064,898
<b>EXPENDITURES:</b>			
Current:			
General government	357,564		357,564
Public works	266,422		266,422
Community and economic development	130,017		130,017
Culture and recreation	27,676		27,676
Other	35,013		35,013
Debt service:			
Principal repayment		20,000	20,000
Interest expense		16,190	16,190
Other		275	275
Total expenditures	816,692	36,465	853,157
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	247,955	(36,214)	211,741
<b>OTHER FINANCING SOURCES (USES):</b>			
Interfund transfers to other funds	(45,819)		(45,819)
Interfund transfers from other funds		45,819	45,819
Total other financing sources (uses)	(45,819)	45,819	
Net change in fund balances	202,136	9,605	211,741
<b>FUND BALANCES:</b>			
Beginning of year	635,143	3,440	638,583
End of year	\$ 837,279	\$ 13,045	\$ 850,324

See notes to financial statements.

**TOWNSHIP OF HANDY  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2006**

Amounts reported for governmental activities in the statement of activities are different because:

<b>Net change in fund balances - total governmental funds</b>	\$ 211,741
Governmental funds report capital outlays as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation:	
Depreciation expense	(32,566)
Capital outlay	12,700
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds	49,265
Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:	
Accrued interest payable beginning of the year	4,159
Accrued interest payable end of the year	(3,936)
Repayments of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities)	20,000
	<hr/>
<b>Change in net assets of governmental activities</b>	<u><u>\$ 261,363</u></u>



**TOWNSHIP OF HANDY  
PROPRIETARY FUNDS  
STATEMENT OF NET ASSETS  
JUNE 30, 2006**

ASSETS	Business-type activities - Enterprise funds		
	Sewer fund	Water fund	Total
<b>CURRENT ASSETS:</b>			
Cash	\$ 295,230	\$ 24,084	\$ 319,314
Cash held in trust with Livingston County	1,021,852		1,021,852
Receivables:			
Accounts	23,343	16,860	40,203
Special assessment-interest	262,341		262,341
Special assessment - current	483,535		483,535
<b>TOTAL CURRENT ASSETS</b>	<b>2,086,301</b>	<b>40,944</b>	<b>2,127,245</b>
<b>NONCURRENT ASSETS:</b>			
Deferred charges:			
Unamortized bond discounts	89,030		89,030
Special assessment	8,060,079		8,060,079
<b>TOTAL NONCURRENT ASSETS</b>	<b>8,149,109</b>		<b>8,149,109</b>
<b>PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation</b>	<b>9,172,687</b>	<b>1,131,173</b>	<b>10,303,860</b>
<b>TOTAL ASSETS</b>	<b>19,408,097</b>	<b>1,172,117</b>	<b>20,580,214</b>
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES:</b>			
Accounts payable	212,487		212,487
Accrued interest	30,458		30,458
Contract retainers payable	199,353		199,353
Current portion of capital lease	510,000		510,000
Due to other funds	100,000	261,867	361,867
<b>TOTAL CURRENT LIABILITIES</b>	<b>1,052,298</b>	<b>261,867</b>	<b>1,314,165</b>
<b>LONG-TERM LIABILITIES, net of current portion:</b>			
Capital lease	8,485,000		8,485,000
<b>TOTAL LIABILITIES</b>	<b>9,537,298</b>	<b>261,867</b>	<b>9,799,165</b>
<b>NET ASSETS:</b>			
Invested in capital assets net of related debt	266,717	1,131,173	1,397,890
Unrestricted	9,604,082	(220,923)	9,383,159
<b>TOTAL NET ASSETS</b>	<b>\$ 9,870,799</b>	<b>\$ 910,250</b>	<b>\$ 10,781,049</b>

**TOWNSHIP OF HANDY  
PROPRIETARY FUNDS  
STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN FUND NET ASSETS  
YEAR ENDED JUNE 30, 2006**

	<b>Business-type activities-Enterprise funds</b>		
	<b>Sewer fund</b>	<b>Water fund</b>	<b>Total</b>
<b>OPERATING REVENUES:</b>			
Charges for services	\$ 43,223	\$ 37,110	\$ 80,333
Other		6,606	6,606
Total operating revenues	43,223	43,716	86,939
<b>OPERATING EXPENSES:</b>			
Costs of sales and services	74,611	41,331	115,942
Depreciation	91,172	21,469	112,641
Total operating expenses	165,783	62,800	228,583
Operating income (loss)	(122,560)	(19,084)	(141,644)
<b>NON-OPERATING REVENUES (EXPENSES):</b>			
Special assessments - contributed capital	5,662,000		5,662,000
Investment income - net	38,812	1,597	40,409
Interest and fiscal charges	(284,596)		(284,596)
Bond discount amortization	(3,600)		(3,600)
Total non-operating revenues - net	5,412,616	1,597	5,414,213
Change in net assets	5,290,056	(17,487)	5,272,569
<b>NET ASSETS, beginning of year</b>	4,580,743	927,737	5,508,480
<b>NET ASSETS, end of year</b>	<u>\$ 9,870,799</u>	<u>\$ 910,250</u>	<u>\$ 10,781,049</u>

**TOWNSHIP OF HANDY  
PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2006**

	<b>Business-type activities - Enterprise funds</b>		
	<b>Sewer fund</b>	<b>Water fund</b>	<b>Total</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
<b>ACTIVITIES:</b>			
Receipts from customers and users	\$ 61,219	\$ 24,227	\$ 85,446
Other		6,606	6,606
Payment to suppliers	(114,243)	(45,279)	(159,522)
Payment (receipts) for interfund services	124,545		124,545
Net cash provided (used) in operating activities	71,521	(14,446)	57,075
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Proceeds from issuance of debt	5,060,000		5,060,000
Interest received from special assessments	230,181		230,181
Additional payment to county trust account	(827,925)		(827,925)
Proceeds (payments) from special assessments	451,904		451,904
Principal repayments on debt	(245,000)		(245,000)
Interest (paid) earned on bonds and land contract	(267,682)		(267,682)
Payments for capital acquisitions	(4,435,202)	(8,775)	(4,443,977)
Net cash used by capital and related financing activities	(33,724)	(8,775)	(42,499)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Interest received from investments	39,613	1,597	41,210
<b>NET INCREASE (DECREASE) IN CASH</b>	77,410	(21,624)	55,786
<b>CASH:</b>			
Beginning of year	217,820	45,708	263,528
End of year	\$ 295,230	\$ 24,084	\$ 319,314

**TOWNSHIP OF HANDY  
PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2006**

	<u>Business-type activities - Enterprise funds</u>		
	<u>Sewer fund</u>	<u>Water fund</u>	<u>Total</u>
<b>RECONCILIATION OF NET OPERATING REVENUES (EXPENSE) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:</b>			
Operating income (loss)	\$ (122,560)	\$ (19,084)	\$ (141,644)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:			
Depreciation	91,172	21,469	112,641
(Increase) decrease in assets:			
Receivables	17,997	(12,883)	5,114
Due to/from other funds-net	124,545		124,545
Increase (decrease) in liabilities:			
Accounts payable	(39,633)	(3,948)	(43,581)
	<u>(39,633)</u>	<u>(3,948)</u>	<u>(43,581)</u>
Net cash provided (used) in operating activities	<u>\$ 71,521</u>	<u>\$ (14,446)</u>	<u>\$ 57,075</u>

**TOWNSHIP OF HANDY  
FIDUCIARY FUNDS  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
JUNE 30, 2006**

	<u>Trust and agency</u>	<u>Planning and zoning escrow</u>	<u>Tax collection fund</u>	<u>Total Fiduciary funds</u>
<b>ASSETS</b>				
<b>ASSETS:</b>				
Cash	\$ 67,172	\$ 38,538	\$ 28,856	\$ 134,566
Interest receivable			1,593	1,593
Due from other local units of government	<u>2,158</u>	<u>407</u>		<u>2,565</u>
<b>TOTAL ASSETS</b>	<u>\$ 69,330</u>	<u>\$ 38,945</u>	<u>\$ 30,449</u>	<u>\$ 138,724</u>
<b>LIABILITIES</b>				
<b>LIABILITIES:</b>				
Due to other local units of government	\$ 69,330	\$	\$ 30,449	\$ 99,779
Contractors payable		<u>38,945</u>		<u>38,945</u>
<b>TOTAL LIABILITIES</b>	<u>\$ 69,330</u>	<u>\$ 38,945</u>	<u>\$ 30,449</u>	<u>\$ 138,724</u>

**TOWNSHIP OF HANDY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The Township of Handy (Township) was organized as a Township under provisions of the constitution and general law of the State of Michigan. The Township is one of sixteen (16) townships in Livingston County, and is governed by a five member elected board. The Township provides the following services to its residents; public safety (fire), public improvements (streets, sewers, water system, lighting), planning and zoning, and general administrative services.

In evaluating the Township as a reporting entity, management has addressed all potential component units (traditionally separate reporting entities) for which the Township may be financially accountable and, as such, should be included within the Township's financial statements. The Township (the primary government) has no component units and accordingly, the Township has not consolidated any entities into its financial statements.

**Joint Operations**

The Township, in conjunction with the Townships of Conway and Iosco and the Village of Fowlerville, have entered into an agreement that created the Fowlerville Area Fire Authority. The Fire Authority is composed of one (1) member from each of the member municipalities.

**B. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type* activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**TOWNSHIP OF HANDY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**C. Measurement Focus, Basis of Accounting and Basis of Presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Government fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as claims and judgments, are recorded only when payment is due.

Licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal year. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The government reports the following major proprietary funds:

The water and sewer funds are used to account for the results of operations that provide a service to citizens that are financed primarily by user charges for the provision of that service.

**TOWNSHIP OF HANDY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)**

Additionally, the government reports the following fund type:

Debt service fund - The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term debt. The Township's only current debt service fund relates to the Fire Station.

Additionally, the government reports as fiduciary funds the tax collection fund, trust and agency, and planning and zoning escrow (agency funds).

The *tax collection fund* is utilized to account for the Township's collection of taxes for other governmental units.

The *trust and agency fund* accounts for the collection of delinquent taxes for other governmental units and performance bonds.

The *planning and zoning escrow fund* accounts for collection of zoning permits and the expenses related to the permit.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges for water, sewer and engineering services between the water and sewer funds and other functions of government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.



**TOWNSHIP OF HANDY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Measurement Focus, Basis of Accounting and Basis of Presentation (Concluded)**

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer funds are charges to customers for sales and services. The funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

**D. Assets, Liabilities and Net Assets or Equity**

**1. Cash and Investments**

Cash includes amounts in petty cash and demand deposits. Investments include instruments allowed by state statute subsequently described. Investments are carried at amortized cost or fair value.

State statutes authorized the Township to invest in bonds, securities, and other direct and certain indirect obligations of the U.S. Treasury, which include securities issued or guaranteed by the Government National Mortgage Association; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; and in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Township is also authorized to invest in U.S. government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

**TOWNSHIP OF HANDY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Assets, Liabilities and Net Assets or Equity (Concluded)**

**2. Receivables and payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “due to/from other funds” and are all current. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Accounts receivable in the proprietary funds do not have an allowance for uncollectibles. Delinquent amounts are determined on an individual basis and will be taken to court to enforce collection and as a consequence, no allowance is deemed necessary at this time.

**E. Capital Assets**

Capital assets, which include land, buildings and improvements, furniture and equipment, and utility systems, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvement are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment of the primary government, is depreciated using the straight-line method over the following estimated useful live:

Assets	Years
Buildings	20 - 50
Water and sewer systems	50
Equipment	3-5

**TOWNSHIP OF HANDY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)**

**F. Long-term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**G. Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**NOTE 2 - LEGAL COMPLIANCE - BUDGETS**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. An annual appropriated budget is adopted for the general. All annual appropriations lapse at fiscal year-end.

Encumbrances represent commitments related to unperformed contracts for goods or services. The Township does not utilize encumbrance accounting.

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

1. On or prior to June 1 of each year, a proposed budget is submitted to the Township Board for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.

**TOWNSHIP OF HANDY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - LEGAL COMPLIANCE - BUDGETS (Concluded)**

2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to July 1 the budget is legally enacted through passage of a resolution.
4. Any revisions of the budget must be approved by the Township Board.
5. Formal budgetary integration is employed as a management control device during the year for the general fund.
6. Budgets for general fund are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Budgeted amounts are as originally adopted, or as amended by the Township Board during the fiscal year. Individual amendments were not material in relation to the original appropriations which were amended.
7. The budget is prepared by fund and function and includes information on the past year, current year estimates and requested appropriations for the next fiscal year. Expenditures may not exceed budget at the function level.

**NOTE 3 - CASH DEPOSITS - CREDIT RISK**

As of June 30, 2006, the Township had no investments as defined by accounting principles generally accepted in the United States of America.

**Custodial credit risk - deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. As of June 30, 2006, \$808,888 of the Township's bank balance of \$1,008,881 was exposed to custodial credit risk because it was uninsured and uncollateralized. Certificate of deposits and fiduciary funds are included in the above totals. The Township also has an additional \$1,021,852 of cash held in a trust at Livingston County. This amount is not included in the above totals.

Deposits , including agency funds of \$134,566	\$ 555,434
Cash held in trust at Livingston County	1,021,852
Investments - certificate of deposits	<u>450,000</u>
	<u><u>\$ 2,027,286</u></u>

**TOWNSHIP OF HANDY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 – CASH DEPOSITS – CREDIT RISK (Concluded)**

The above amounts are reported in the financial statements as follows:

Cash - fiduciary funds	\$ 134,566
Cash - Township wide	420,868
Investments - Township wide	450,000
Cash held in a trust at Livingston County	<u>1,021,852</u>
	<u><u>\$ 2,027,286</u></u>

**NOTE 4 - CAPITAL ASSETS**

The capital assets are as follows:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Primary government:				
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 20,000	\$	\$	\$ 20,000
Capital assets, being depreciated:				
Buildings and building equipment	630,504			630,504
Furniture and equipment	<u>116,347</u>	<u>12,700</u>		<u>129,047</u>
Total capital assets, being depreciated	<u>746,851</u>	<u>12,700</u>		<u>759,551</u>
Less accumulated depreciation for:				
Buildings and building equipment	75,486	19,624		95,110
Furniture and equipment	<u>75,502</u>	<u>12,942</u>		<u>88,444</u>
Total accumulated depreciation	<u>150,988</u>	<u>32,566</u>		<u>183,554</u>
Total capital assets, being depreciated, net	<u>595,863</u>	<u>(19,866)</u>		<u>575,997</u>
Total	<u><u>\$ 615,863</u></u>	<u><u>\$ (19,866)</u></u>	<u><u>\$</u></u>	<u><u>\$ 595,997</u></u>

**TOWNSHIP OF HANDY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 4 - CAPITAL ASSETS (Continued)**

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Primary government:				
Business-type activities:				
Capital assets, not being depreciated:				
Construction in progress	\$	\$ 4,946,137	\$	\$ 4,946,137
Capital assets, being depreciated:				
Water system	900,000	24,975		924,975
Sewer system	4,558,589	95,972		4,654,561
Total capital assets, being depreciated	5,458,589	120,947		5,579,536
Less accumulated depreciation for:				
Water system	18,000	21,469		39,469
Sewer system	91,172	91,172		182,344
Total accumulated depreciation	109,172	112,641		221,813
Total capital assets, being depreciated, net	5,349,417	8,306		5,357,723
Total	\$ 5,349,417	\$ 4,954,443	\$	\$ 10,303,860

Depreciation expense was charged to functions/programs of the primary government at June 30, 2006 as follows:

Governmental activities:	
General government	\$ 32,566
Business type activities:	
Water	21,469
Sewer	91,172
Total depreciation expense - business-type activities	\$ 112,641

**TOWNSHIP OF HANDY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 5 - INTERFUND RECEIVABLES, PAYABLE AND TRANSFERS**

The composition of interfund balances as of June 30, 2006 is as follows:

Due to/from other funds:

<u>Receivable fund</u>	<u>Amount</u>	<u>Payable fund</u>	<u>Amount</u>
General	\$ 361,867	Water fund	\$ 261,867
		Sewer fund	<u>100,000</u>
	<u>\$ 361,867</u>		<u>\$ 361,867</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. The general fund expects to collect in the subsequent year.

Interfund transfers:

<u>Transfers out</u>	<u>Transfer in</u>
General fund <u>\$ 45,819</u>	Nonmajor debt service <u>\$ 45,819</u>

Transfers are used to move funds for the payment of principal and interest on long-term debt.

**TOWNSHIP OF HANDY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 - LONG-TERM DEBT**

General Obligation Bonds

The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental activities for the fire hall. The original amount of general obligation bonds issued in prior years was \$400,000.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds are issued as 15-year serial bonds with differing amounts of principal maturing each year. General obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Interest rates</u>	<u>Amount</u>
Government activities	4.45% - 4.70%	<u>\$ 350,000</u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

<u>Year ending June 30,</u>	<u>Governmental activities</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 20,000	\$ 15,300
2008	20,000	14,410
2009	25,000	13,409
2010	25,000	12,296
2011	25,000	11,184
2012-2016	160,000	35,996
2017-2021	<u>75,000</u>	<u>3,625</u>
	<u>\$ 350,000</u>	<u>\$ 106,220</u>



**TOWNSHIP OF HANDY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 - LONG-TERM DEBT (Continued)**

The Township entered into two capital leases with Livingston County for the sewer systems. The capital leases outstanding at June 30, 2006 are as follows:

Purpose	Interest rates	Amount
2003 sewer system	2.70% - 4.75%	\$ 3,935,000
2005 sewer disposal	4.00% - 4.50%	5,060,000
		\$ 8,995,000

The total interest expense on the capital leases amounted to \$284,232 at June 30, 2006.

The future minimum lease obligations as of June 30 were as follows:

Year ending June 30,	Business-type activities	
	Principal	Interest
2007	\$ 510,000	\$ 365,496
2008	510,000	348,281
2009	510,000	331,066
2010	510,000	312,871
2011	510,000	293,941
2012-2016	2,550,000	1,168,484
2017-2021	2,565,000	637,354
2022-2025	1,330,000	131,553
	\$ 8,995,000	\$ 3,589,046

# TOWNSHIP OF HANDY

## NOTES TO FINANCIAL STATEMENTS

### NOTE 6 - LONG-TERM DEBT (Concluded)

#### Changes in Long-Term Liabilities

Long-term liabilities activity for the year ended June 30, 2006, was as follows:

	Beginning balance	Additions	Reductions	Ending balance	Due within one year
<b>Governmental activities:</b>					
Bonds payable:					
General obligation bonds	\$ 370,000	\$	\$ 20,000	\$ 350,000	\$ 20,000
<b>Business-type activities:</b>					
Capital lease	4,180,000	5,060,000	245,000	8,995,000	510,000
	<u>\$ 4,550,000</u>	<u>\$ 5,060,000</u>	<u>\$ 265,000</u>	<u>\$ 9,345,000</u>	<u>\$ 530,000</u>

### NOTE 7 - PROPERTY TAX REVENUE

Property taxes become an enforceable lien on the property as of July 1 and December 1. Taxes are levied on July 1 and December 1 and are due in September and February of the following year. The Township bills and collects its own property taxes and also taxes for the county, intermediate school district, community college and school districts. All tax collections are accounted for in the tax collection fund, an agency fund. Township tax revenues are recognized in the fiscal year following the December 1 levy date. Property taxes levied for the ensuing year's revenue are included in taxes receivable and deferred revenue. Property tax receivables related to delinquent taxes are also deferred unless collected within 60 days of year-end.

The Township is permitted by state statute to levy taxes up to \$1.30 per \$1,000 of taxable valuation for general government services other than the payment of principal and interest on long-term debt. In addition, the residents of the Township have approved an additional \$1.00 per \$1,000 specifically for the road improvements. The Township levied \$.8799 per \$1,000 for general governmental purposes and \$.9285 per \$1,000 for the road improvements for a total of \$1.8084 per \$1,000.

**TOWNSHIP OF HANDY**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 8 - COMMITMENTS AND CONTINGENCIES**

The Township is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Township carry commercial insurance to cover any losses that may result from the above described activities. No settlements have incurred in excess of coverage in 2006.

The Township also participates in a pool, the Michigan Township Participating Plan, with other municipalities for property, liability, wrongful acts, auto, crime, in-land marine, and bonding losses. The pool is organized under Public Act 138 of 1982, as amended. The Township has no liability for additional assessments based on the claims filed against the pool nor do they have any right to dividends.

**NOTE 9 - NATURE AND PURPOSE OF DESIGNATIONS OF FUND BALANCE**

Designations in the general fund exist for subsequent year expenditures.

**NOTE 10 - USE OF ESTIMATES**

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**TOWNSHIP OF HANDY**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
**YEAR ENDED JUNE 30, 2006**

	<b>Original budget</b>	<b>Final budget</b>	<b>Actual</b>	<b>Variance with final budget- positive (negative)</b>
<b>REVENUES:</b>				
Taxes	\$ 440,595	\$ 440,595	\$ 431,700	\$ (8,895)
Licenses and permits	25,000	25,000	28,164	3,164
Charges for services	2,510	2,510	11,719	9,209
Investment earnings	7,500	7,500	22,125	14,625
Rental income and royalties	54,519	54,519	63,442	8,923
Other	125,000	125,000	231,718	106,718
State shared revenue	270,000	270,000	275,779	5,779
Total revenues	925,124	925,124	1,064,647	139,523
<b>EXPENDITURES:</b>				
Current:				
General government:				
Legislative - trustees	61,900	65,536	36,167	29,369
Manager	20,000	20,000	19,179	821
Supervisor	22,100	22,100	22,128	(28)
Assessing	49,200	49,200	46,988	2,212
Clerk	38,200	38,200	37,112	1,088
Treasurer	40,500	40,500	34,606	5,894
Township hall and grounds	113,500	120,078	104,971	15,107
General administration	48,000	50,115	48,361	1,754
Cemetery	2,000	2,000	1,950	50
Elections	15,100	15,100	6,102	8,998
Total general government	410,500	422,829	357,564	65,265

**TOWNSHIP OF HANDY**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
**YEAR ENDED JUNE 30, 2006**

	<b>Original budget</b>	<b>Final budget</b>	<b>Actual</b>	<b>Variance with final budget- positive (negative)</b>
<b>EXPENDITURES (Concluded):</b>				
Current:				
Public works:				
Refuse collection	\$ 105,000	\$ 105,000	\$ 5,748	\$ 99,252
Streets and highways	235,000	235,000	260,402	(25,402)
Street lighting	500	500	272	228
Total public works	340,500	340,500	266,422	74,078
Community and economic development:				
Planning commission	100,500	121,500	94,434	27,066
Zoning board	28,000	28,160	26,608	1,552
Board of appeals	5,600	5,600	1,975	3,625
Contracted services	7,000	7,000	7,000	
Total community and economic development	141,100	162,260	130,017	32,243
Culture and recreation:				
Parks and recreation	25,000	25,000	27,676	(2,676)
Other:				
Payroll taxes	15,000	15,000	14,206	794
Contingencies	75,000	35,632		35,632
Insurance	13,000	18,878	20,807	(1,929)
Total other	103,000	69,510	35,013	34,497
Total expenditures	1,020,100	1,020,099	816,692	203,407
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating transfer out	(45,819)	(45,819)	(45,819)	
Net change in fund balances	\$ (140,795)	\$ (140,794)	202,136	\$ 342,930
<b>FUND BALANCE:</b>				
Beginning of year			635,143	
End of year			\$ 837,279	



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Linda I. Schirmer  
Steven W. Scott  
David M. Raeck  
Robert E. Miller, Jr.  
Steven B. Robbins  
James E. Nyquist  
James R. Dedyne

Timothy H. Adams  
David B. Caldwell  
Edward L. Williams, III  
Timothy J. Orians  
Dennis D. Theis

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Walter P. Maner, Jr. (1921-2004)  
Floyd L. Costerisan  
Leon A. Ellis (1933-1988)

November 22, 2006

To the Board of Trustees  
Township of Handy  
Fowlerville, Michigan

In planning and performing our audit of the financial statements of Township of Handy for the year ended June 30, 2006, we considered the Township's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The comments and suggestions regarding those matters follow. This letter does not affect our report dated November 22, 2006, on the financial statements of the Township of Handy.

Improve Monthly Closing Procedures

During the audit, we proposed many adjusting journal entries. Substantially all of the entries were to adjust the general ledger or to make accruals and other adjustments. We believe that a review and evaluation of transactions and formalized monthly closing procedures will expedite the month-end closing and improve interim reporting. A formalized month end procedures checklist should be implemented and reviewed monthly.

#### Accounting and Procedures Manual

Currently there is no accounting and procedures manual. The Township should develop a procedure manual to assist in recording of transactions. A manual will ensure that in a case of employee turnover the operations and procedures in recording transactions remain consistent.

#### Excess Budget Expenditures

During the course of our audit it was noted that streets and highway, parks and recreation and insurance expenditures exceeded the adopted budgets by \$25,402, \$2,676 and \$1,929, respectively. If expenditures are to exceed budgeted amounts the budget must be amended. The amendment must be approved by the Board prior to the expenditure being made. There is no authority to amend the budget after year end.

#### Employee Dishonesty Coverage

You should review the coverage of employee dishonesty insurance and assess the cost benefit of increasing the limits and individuals covered.

#### Chart of Accounts

During the audit, we noticed that the chart of accounts is not in compliance with the mandated account structure issued by the state. We recommend that the Township review the mandated structure and adjust their account code accordingly.



#### Cash and Bank Reconciliation Duties

Internal control is most effective when the bank reconciliation is prepared by someone not responsible for entries in the receipts and disbursements records. Inasmuch as this is difficult because of the small number of office employees, we recommend that test reconciliations be made from time to time by one of the officers. In addition, he or she should review, approve, and sign the bank reconciliation each month. In addition, an individual not responsible for the bank reconciliation should receive the bank statements unopened and review cancelled checks for propriety. The person performing the bank reconciliation should also review the cancelled checks for proper payee, signature and amount.

As the clerk records deposits from the pre-numbered receipt book, a review should be done for sequence of receipts to ensure all receipts are recorded and deposited.

#### New Auditing Standards

Recently, 10 new auditing standards have been released and will become effective over the Township's next two fiscal years. In reviewing the new standards, we do not believe, for the most part, they will have a significant impact on our overall audit approach. However, two of the new standards may directly impact the Township beginning with the June 30, 2007 year-end.

One of the new standards revises the dating of the auditors' report. Under the old standards, the auditors' report was dated the last day of fieldwork. The new standards define the date as the date adequate audit evidence is obtained. Adequate audit evidence is now being interpreted as including the client's approval of draft financial statements. Although the dating of the report may seem trivial to non-auditors, it does have an impact on auditors' subsequent events work (June 30 through date of the auditors' report). The impact to the Township could be if there was a long period of time needed to resolve certain open issues. This would extend the dating of the auditors' report and increase the amount of work we need to complete our subsequent events work.

Another standard effective for the June 30, 2007 year-end is related to our communications with the client. The new standard retained the definition of a "material weakness" and added two new categories of deficiencies "significant deficiency" and "control deficiency". Certain situations were included as examples of strong indicators of significant deficiencies and possibly material weaknesses. One of the situations is the client is unable to write financial statements, including the footnotes, in accordance with generally accepted accounting principles. Historically, we have prepared the financial statements and footnotes for the Township. We will have to evaluate the Township's ability to produce appropriate financial statements and footnotes and, accordingly, if any control deficiencies exists.

To the Board of Trustees  
Township of Handy  
Fowlerville, Michigan

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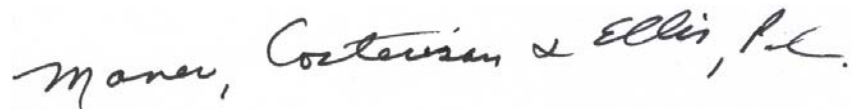
November 22, 2006

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Township personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of the Township of Handy, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours

A handwritten signature in cursive script that reads "Maner, Costerian & Ellis, P.C.".



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Walter P. Maner, Jr. (1921-2004)  
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November 22, 2006

To the Board of Trustees  
Township of Handy  
Fowlerville, Michigan

We have audited the financial statements of Township of Handy for the year ended June 30, 2006, and have issued our report thereon dated November 22, 2006. Professional standards require that we provide you with the following information related to our audit.

1. Our Responsibility under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards.

As stated in our engagement letter dated September 25, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of Township of Handy. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Township of Handy's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

1. Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Township of Handy are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2006. We noted no transactions entered into by Township of Handy during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

2. Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were estimated fixed assets lives for depreciation.

3. Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Township of Handy's financial reporting process (that is, cause future financial statements to be materially misstated). A total of 52 journal entries were recorded during the audit.

4. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

5. Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

6. Issues Discussed Prior to Retention of Independent Auditors

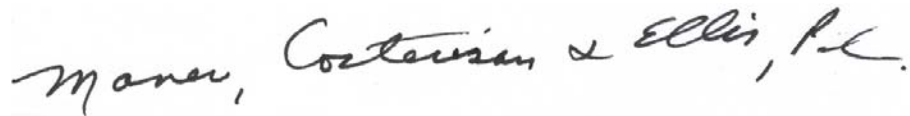
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Township of Handy's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

7. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the Board of Trustees, and management of Township of Handy and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script that reads "Maner, Coetzee & Ellis, P.C.".